

Recovery Performance of RRB: An Analysis (A Case Study of Manipur Rural Bank)

N. Tejmani Singh & Th. Jitendra Singh

Abstract

The present study makes an attempt to analyze the recovery performance of MRB and the causes of defaults. 250 beneficiaries and managers of 27 branches (including the Head Office) were selected and both primary and secondary data were used for the purpose of the study. The timely recovery of loans is a prerequisite for any credit institution, particularly for RRBs with their limited funds for sustained growth and existence. The repayment of loans mainly depends on proper utilization of the loan amount, supply of quality assets, generation of sufficient income from schemes, availability of infrastructural and marketing facilities, willingness to repay, continuous supervision and follow-up visits, interest and initiatives taken by the bank staff and Govt agencies and above all the recovery management of the bank concerned.

Key words: *Recovery performance, repayment, Govt agencies, interest.*

Introduction

Agriculture is one of the most important industries and is regarded as the "backbone" of the Indian economy. About 80 percent of its population live in villages and agriculture is the primary occupation of about 70 percent of the total population of the country. It creates employment for about three-fourths of the working population and accounts for about 50 percent of the national income.

Manipur is one of the easternmost states of India and an isolated hill-girt state. It has a geographical area of 22,327 sq kms. This is only 0.7 percent of the total land surface of India. Manipur has two tracts ie hills and valley. The hill area covers ninety percent of the total geographical area of the state ie 20,089 and the remaining 2,238 sq kms. are covered by the valley. Agriculture is the main occupation of the people. About 71 percent of the total population depend on agriculture for their livelihood. Manipur is also renowned for its handloom and handicraft industries.

Since the 1950s, the Government of India has been making all efforts for the development of agriculture. It is needless to state that adequate credit facility is very essential for agricultural growth. Because of the vast gap in the supply and

need of credit in the vital sector of the economy, the multi-agency approach is initiated. The agricultural credit agencies include cooperatives and commercial banks and both were lacking in many ways and were not able to fill the regional and functional gap in the rural credit system. As a result of it, five RRBs were established on 2 October 1975 to cater for the needs of credit of the rural people. In accordance with the Regional Rural Bank Act, 1976 Manipur Rural Bank (MRB) was established on 28 May, 1981 as a joint undertaking of the Government of India, the Government of Manipur and the United Bank of India (sponsored bank) with share capital at the ratios of 50, 15 and 35 respectively.

The main objective of MRB is to develop economically and socially the rural people of the state, particularly the weaker sections. The bank has an operation with a network of 29 branches spread over all the 9 districts of the state. Out of 29 branches, 1 branch is in the urban area, 8 in the semi-urban areas and the remaining 20 in the rural areas.

Review of literature

The importance of MRB as an institution for financing the rural community has been increasing since its inception. It has made arrangements for giving financial assistance to the rural people, especially the weaker sections. Several studies have been conducted hitherto to examine the role of bank finance in uplifting the weaker section of the rural people. Commensurate with the objectives of the present study, the relevant literature is reviewed and scanned below:

- 1) Sinha and Parsad (1980) observe that 10 households (9.8%) had made repayment, 44 households (43.13%) were irregular in repayment, 33 households (32.36%) benefited under the food for work programme and were not subject to any repayment obligation as they get only wages. The repayment habits of the loanees thus were fairly poor. One of the reasons for poor repayment was that the schemes were generally accepted as a dole or the relief programmes were partial in approach and temporary in nature.
- 2) S. Sikidar, in his study, "Rural Banking - An Infrastructural Input for Hill Area Development" (1992), has critically evaluated the role of bank finance in the development of hill areas in Northeast. He has suggested for a practical approach towards the recovery of bank loans from the tribal population in hill areas.
- 3) Shylendra and Katar Singh (1994) report that there should be a ban on general loan waivers and calls for measures like the implementation of effective insurance schemes and for following an incentive-based loan recovery system.
- 4) Lakshmi *et al.* (1998) find that of the 120 borrowers of Kerala, 55 were defaulters and 65 were non-defaulters. Marketed surplus, time of sowing and credit gap were the major characteristics which determined whether the borrowers of crop loans were defaulters or non defaulters.
- 5) Rao *et al.* (1999-2000) in their article identify that the absence of infrastructure or its inadequacy acts as a constraint in the flow of credit and economic development. They emphasize an appropriate lender-borrower relationship for better recovery rather than mere follow-up.

The above studies have concentrated in one part or another on India and have not mentioned about the recovery performance of MRB. Hence the present study makes a humble attempt to study its recovery performance.

Objective of the study

The objective of the present study is to make an endeavour to analyze the recovery performance of MRB and also the probability causes of defaults.

Methodology

For the purpose of the present study both primary and secondary data have been used. Primary data were collected through a pre-tested structured questionnaire and the direct personal investigation method was also followed in both beneficiaries and bank officials. 250 beneficiaries and 27 branches (including the Head Office of MRB) were selected from the nine districts of the state. The secondary data were collected from the annual reports of MRB, related books, census of India (primary census abstract) and different national and international journals.

Recovery performance of MRB

The timely recovery of loans is a prerequisite for any credit institution, particularly for RRBs with their limited funds for sustained growth and existence. The repayment of loans mainly depends on their proper utilization, supply of quality assets, generation of sufficient income from schemes, availability of infrastructural and marketing facility, willingness to repay, continuous supervision and follow-up visits, interest and initiatives of the bank staff and other related government agencies and above all the recovery management of the bank concerned. Table 1 represents the recovery performance of MRB in the case of farm sector.

**Table 1: Recovery Performance of MRB in the Farm Sector
(From the year 1999-00 to 2006-07)**

(Rs in thousands)					
<i>Years</i>	<i>Demand</i>	<i>Recovery</i>	<i>Overdue</i>	<i>Recovery %</i>	<i>Growth% (June position)</i>
1999-00	16328	945	15383	5.79	-
2000-01	17312	1936	15373	11.20	+5.41
2001-02	18187	2496	15691	13.72	+2.52
2002-03	18559	3649	14820	19.66	+5.94
2003-04	19713	4767	14946	24.18	+4.52
2004-05	21574	5762	15812	26.71	+2.53
2005-06	28936	7365	21571	25.45	-1.26
2006-07	35285	7013	28272	19.88	-5.57
Total	175894	33933	141868	146.59	14.09
Average	21986.75	4241.62	17733.50	18.32	2.01

Source: Annual Report of MRB.

It is clear from the above table that in the case of farm sector the demand for loan increased continuously from Rs. 16328 (year 1999-00) to Rs. 35285 (2006-07). However, the recovery position of MRB in the case of farm sector is very dismal because the highest recovery percentage was 26.71 in 2004-05. This is a very low percentage. The lowest recovery percentage was 5.79 in 1999-00. The average recovery percentage is 18.32 during the period referred to. The recovery percentage followed an increasing trend from 5.79 (1999-00) to 26.71 (2004-05). But the recovery rate decreased afterwards and ultimately it came down to 19.99 (2006-07) percent only. The average growth rate is 2.01 percent only during the present study period. It indicates the alarming situation of loan recovery and also indicates inefficiency in the recovery management system of MRB. However, the recovery position of the non-firm sector is better, as shown in Table 2.

Table 2: Recovery Performance of MRB in Non-farm Sector
(From the year 1999-00 to 2006-07)

(Rs. in thousands)					
Years	Demand	Recovery	Overdue	Recovery%	Growth% (June position)
1999-00	36492	16853	19639	46.18	-
2000-01	40646	18372	22274	45.20	-0.98
2001-02	53680	29838	23842	55.58	+10.38
2002-03	63297	37221	26076	58.80	+3.22
2003-04	71597	42534	29063	59.41	+0.61
2004-05	82171	46285	35886	56.33	-3.08
2005-06	102599	62325	40274	60.75	+4.42
2006-07	110286	67583	42703	61.28	+0.53
Total	560768	321011	239757	443.53	15.10
Average	70096	40126.37	29969.62	55.44	2.15

Source: Annual Report of MRB.

Table 2 reveals an increasing trend in the demand for loan amount from Rs. 36492 (1999-00) to Rs. 110286 (2006-07). The overdue amount also increased continuously from 19639 (1999-00) to 42703 (2006-07). The recovery percentage went up during the last six years ie from 55.58 (2001-02) to 61.28 (2006-07) percent except in the year 2004-05 (-3.08). From the table 1 & 2 figures, it is clear that the recovery percentage in the non-firm sector is more than that in the firm sector. It is mainly due to the fact that the borrowers in the firm sector are small rural farmers and recovery from them has been a constant problem for various reasons. However, the recovery rate of the non-firm sector is also not satisfactory because the highest recovery percentage was 61.28 in 2006-07. This rate is not very high. The total recovery position (firm sector + non-firm sector) of MRB is depicted in Table 3.

Table 3: Recovery Performance of MRB (Farm + Non-farm Sector)
(From the year 1999-00 to 2006-07)

(Rs. in thousands)

Years	Demand	Recovery	Overdue	Recovery%	Growth% (June position)
1999-00	52820	17798	35022	33.70	-
2000-01	57958	20311	37647	35.04	+1.34
2001-02	71867	32334	39533	44.99	+9.95
2002-03	81856	40870	40986	49.93	+4.94
2003-04	91310	47301	44009	51.80	+1.87
2004-05	103745	52047	51698	50.17	-1.63
2005-06	131535	69690	61845	52.24	+2.07
2006-07	145571	74596	70975	51.24	-1.00
Total	736662	354944	381625	369.11	17.54
Average	92082.75	44368	47703.12	46.13	2.50

Source: Annual Report of MRB.

It is depicted in Table 3 that the overall recovery position of MRB is not so satisfactory during the present study period because the average recovery percentage is 46.13 only of the total loan demand (Firm sector + Non-firm sector). However, during the last four years the rate of recovery percentage increased from 35.04 (2000-01) to 51.80 (2003-04) continuously. Then the rate of recovery percentage declined to 50.17 (2004-05) and 51.24 (2006-07) respectively. This indicates the inefficiency in the recovery management system of MRB. One of the plausible reasons for such bad recovery performance might be the absence of any scientific mechanism both to evaluate the loan proposal before the sanction and to recover the money once it is sanctioned.

Causes of overdue

The present study indicates that the percentage of overdue is high due to the increasing number of defaulters at MRB. An attempt is made to present the possible causes of poor recovery of loans on the basis of the information collected through the field survey of both loanees and bank officials.

1) From the viewpoint of loanees

- To study the problem of 250 beneficiaries, they were interviewed during the field survey with a view to ascertaining their perception about the reason for defaults. The causes of default are highlighted in Table 4.

Table 4: Causes of Non-repayment of the Loan Amount

<i>Causes</i>	<i>No. of Beneficiaries (Respondents)</i>
i) Damage of assets like disease or death of livestock, crop failure, industrial sickness, effect of natural calamities, vehicle not in working order	67 (35.26)
ii) Unforeseen domestic problems like marriage, death, birth, illness	53 (27.89)
iii) Low income generation from the project	28 (14.73)
iv) Misutilization	19 (10.00)
v) Wilful defaulters	15 (7.89)
vi) Wrong selection of scheme	8 (4.21)
Total	190 (100)

The percentage of respondents is given in brackets.

Source: Compiled from field survey.

Out of 190 beneficiaries (excluding 60 beneficiaries who had already repaid the entire amount), 67 beneficiaries (35.26 percent) reported that they could not make the repayment of the loan amount due to the damage of assets or failure of the scheme.

In the firm sector, in sheep-rearing the recovery rate is low because of frequent death of the sheep, non-availability of veterinary hospitals, immediate disposal of the sheep and the practice of getting a loan by showing others' sheep or the sheep already acquired. In the case of poultry, piggery and milch cattle, lack of feed, inadequate medical facility and diseases to birds were the primary causes for poor collection in this sector. A terrible disease like "birth flu" occurred last year (2007) in Manipur. It gave an unbearable burden of debt to the beneficiaries. In fishery, the fishpond was damaged due to floods and no follow-up action was undertaken, nor was any provision for further loan under the scheme to repair the fishpond. As a result the scheme failed and it affected the repayment of loan. The rural artisans were facing many problems like shortage of capital, slack season business, scarcity of certain input materials, lack of knowledge in the management of funds and entrepreneurship, absence of training and economically unviable and technically non-feasible schemes. In respect of small businessmen, the main causes were insufficient amounts of loans, seasonality, discontinuance of business and low rates of interest. In the case of crops, frequent failure of crops, low yield and delay in the disposal of produce were responsible for the poor recovery of agricultural loans.

53 beneficiaries (27.89 percent) reported that they had diverted their loan amount for urgent family requirements such as marriage, death, birth, illness etc.

28 beneficiaries (14.73 percent) could not repay the loan due to low income generation from the project. 19 beneficiaries (10 percent) reported they had not utilized the loan for the intended purpose. 15 beneficiaries (7.89) were recorded as

wilful defaulters because they were capable of repaying the loan but did not do so. Due to a faulty selection of the scheme, 8 beneficiaries (4.21 percent) could not make the repayment. The overall repayment behavior of the 250 beneficiaries indicates that only 60 beneficiaries cleared their dues. Because of the aforesaid contributory factors, MRB is not able to collect the demand fully in time. It is the main reason for the increasing overdues of the bank.

2) From the viewpoint of bank officials

- To assess the problems of both the head office and the branches MRB's officials were interviewed orally as well as through a well-designed questionnaire. The main reasons for poor recovery performance expressed by the bankers (expressed in percentage to the total scores of various priorities) are presented in Table 5.

Table 5: Causes of Non-repayment of the Loan Amount

<i>Sl. No.</i>	<i>Causes for non-repayment of the loan amount</i>	<i>% of bank officials</i>
i)	Selection of unsuitable and unviable scheme/project	17.60
ii)	Political interference & social changes	16.30
iii)	Ignorance of Govt agencies	15.10
iv)	Lack of infrastructure & marketing facilities	13.97
v)	Inadequate laws to take appropriate action	11.80
vi)	Inaccurate pre-sanction security and appraisal of the loan proposal	9.70
vii)	Wilful defaulters due to liberal Govt attitude and expectation of debt relief	6.10
viii)	Lack of initiative on the part of the bank staff	4.40
ix)	Deteriorating law and order situation in Manipur (ban, blockade, general strike and insurgency problem)	3.00
x)	Misutilization of the loan amount	2.03
	Total	100%

Source: Compiled from the field survey made.

It is seen from Table 5 that ten factors altogether from the bankers' point of view accounted for 100 percent of the total defaults. It also appears that both the beneficiaries and bank officials have pointed out some common factors like wilful default, faulty selected scheme and misutilization of loan which affected the recovery of dues.

This is not satisfactory for the smooth functioning of the bank. As a result, MRB introduced a one-time compromise settlement scheme (CSS) for small borrower accounts up to Rs. 25000 under RBI directives. The bank is having six core-groups comprising six to eight staff irrespective of grades in each group for the recovery of bank overdues. The bank also engaged an NGO (UNACO) for helping it in the recovery of NPAs accounts.

Table 6: Number of Defaulters on the Basis of Loan Amount Taken

Amount Interval (Rs.)	No. of Lonees	Defaulters	% of Defaulters
Below 10000	75	46	61.33
10000-20000	62	35	56.45
20000-30000	44	22	50.00
30000-40000	28	12	42.85
40000-50000	29	9	31.03
50000 & above	12	3	25.00
Total	250	127	50.80

Source: Personally compiled from the field survey.

Table 6 represents the number of defaulters in relation to the loan amount taken for eight years. From the figures given in the table, it can be understood easily that the number of defaulters is decreasing while the loan amount is increasing. The percentage of defaulters in the case of beneficiaries who took loans below Rs. 10000 was the highest. It stood at 61.33 percent followed by the beneficiaries who took loans ranging between Rs. 10000 and 20000 and standing at 56.45 percent. From the field survey, it could be observed that most of the beneficiaries who took loans up to Rs. 20000 belonged to IRDP and they might be responsible for the high rate of defaulters in this group. It was also found that the high amounts of loan were generally taken by economically sound people like traders/businessmen, local leaders (people politically influential and economically affluent) SHG etc who could repay the loan timely. As a result of it, the percentage rate of defaulters was less in number in this group of beneficiaries.

Suggestions

The following suggestions are made to strengthen the recovery performance of overdues:

- Work based on sincerity: Sincerity is one of the very essential factors for a society to become developed. Both borrowers and bank employees ought to do their duties sincerely. It means that the borrower must not give any bribe to get any loan and ought to utilize the loan for the intended purpose only. On the other hand, the bank employee must disburse the loan in time if the applicant meets all the conditions.
- General compromise settlement policy for all loan accounts.
- While making pre-lending appraisal, the repaying capability of the borrower must be ascertained by the bank employee carefully.
- In the same way, post-lending supervision and approaching the borrower at the right time for repayment may prove effective in the recovery of overdues early.
- In the case of wilful defaulters, the bank must flash their photos and warn them through the local newspapers and ISTV (Information & Starlight Television Network) etc. If there is no response, stern action will have to be taken with the help of the legal authority.

- The legal system must be effective: the Govt. of India and/or the RBI have initiated many legal measures to recover overdues. However, as there are some flaws in each legal measure, they need improvement made in order to bring down the level of overdue amount.
- IT (Information & Technology) in the banking sector: A computer-based banking system can help the bank management if used properly to solve some of the inherent problems. It will also enable to have the required information in taking proper decisions on credit management, maintaining accounts properly, recovery management of the loan accounts, NPAs management etc.
- Inculcating ethics in borrowers: Ethics in the borrower are essential for making the banking sector more effective.

However, a number of borrowers become defaulters not because of low income but due to lack of business ethics, sense of belongingness etc. Hence, banks may take the help of NGOs or other voluntary organizations to educate the borrowers on the importance of timely repayment of credit.

Conclusion

The main factor contributing to the unsound situation of MRB is that the credit delivery system has not produced desired results in terms of quantity and quality for the end use of credit. In its case the recovery performance in the non-firm sector is better than that in the firm sector, but the total recovery performance is not satisfactory during the period of study. Overdues have been identified as a major hurdle in the creation of an efficient and viable credit system at MRB. Poor recovery implies distorted recycling of funds. To overcome these problems, the credit management of MRB is required to develop mechanisms for the proper selection of appropriate borrowers, constant monitoring for proper utilization of the loans, time-bound repayment, cost effectiveness, reduction of overdues and non-performing assets, increase in staff productivity, maintaining a circular flow of credit, accountability, responsibility and motivational improvement. MRB has to be very careful while disbursing credit and take every precaution to ensure timely recovery of the loans. To ensure an easy and smooth recycling of funds, it is necessary that MRB improves its recovery position.

References

- Pati, A.P. (2005), *Regional Rural Banks in Liberalized Environment*, A Mittal Publication, New Delhi.
- Kaye, Tasi (2006), *Role of Regional Rural Banks in Economic Development*, Abhijeet Publications, Delhi.
- Dhaka, M.L. *Co-operating Banking in Haryana*, Nirman Publications, Delhi.
- Das, Ranjit Kumar (2002), "Recovery and Overdues Problems of RRBs with Particular Reference to Uttar Banga Kshetriya Gramin Bank", *Banking Finance*, Vol.-xv, No.-10, PP-8-11.
- Sankaraiah, T. & B. Bhagavan Reddy (1998), "Recovery Performance of Rayalaseema Grameena Bank", (1998), *Banking Finance*, Vol.-xi, No.-11, PP-19-22.
- Sivaloganathan, K. (2004) "Problems in the Recovery of Rural Credit", *Kurukshetra*, Vol.-52, No.-2, PP-36-38.
- Census of India (2001), "Primary Census Abstract", Directorate of Census Operations, Manipur.
- Annual Report of MRB (1999-00 to 2006-07)*.

N. Tejani Singh is Head of the Department of Commerce at M.U., Canchipur.

Th. Jitendra Singh is a research scholar at the Department of Commerce, M.U., Canchipur.